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RUEHQT/AMEMBASSY QUITO 2458
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TREASURY FOR KLINGENSMITH AND NGRANT
COMMERCE FOR 4431/MAC/WH/MCAMERON
NSC FOR DTOMLINSON
HQ SOUTHCOM ALSO FOR POLAD

E.O. 12958: DECL: 10/02/2016
TAGS: ECON EFIN PGOV VE
SUBJECT: VENEZUELAN IMPORTS SURGING AS ECONOMIC POLICIES
PROMOTE A JOHNNY WALKER IN EVERY HOME

Classified By: Economic Counselor Andrew N. Bowen, for reason 1.5(d).

¶1. (SBU) SUMMARY: With implicit BRV blessing, the Commission for the Administration of Foreign Exchange (CADIVI) has significantly increased foreign exchange authorizations in recent weeks, much of which have gone to fuel the on-going import binge in Venezuela. These purchases seem to contradict Chavez's attacks on luxury spending and claims that Venezuela can be self-sufficient. Imports are growing at a rate significantly faster than GDP and are integral to all Venezuelan's daily lives. END SUMMARY.

¶2. (SBU) As of September 28, CADIVI had authorized USD 17.8 billion in foreign exchange transactions for 2006. This is 20 percent higher than the same period in 2005. Of this amount, USD 14.4 billion (or 81 percent) of the approvals are for imports and the remainder are for debt repayments, royalties, foreign investments, repatriation of profits by multi-national corporations and a variety of individual purchases and remittances. USD 3.16 billion of the USD 14.4 billion spent on imports was part of the unrestricted approvals for member countries of the Latin American Association of Integration (ALADI). (Note: ALADI was founded in 1982 by an agreement between the central banks of: Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Dominican Republic, Uruguay and Venezuela to facilitate trade and foreign exchange mechanisms. CADIVI does not restrict funds to import goods from these countries. End note.)

¶3. (C) CADIVI authorizations are currently running at USD 91.5 million daily, which is near the average for this year, though significantly higher than this summer, when CADIVI was authorizing a little over USD 80 million daily. According to the former head of CADIVI, Mary Espinoza de Robles (STRICTLY PROTECT), the new administration is very inefficient and politicized. She claimed that the new CADIVI President (a former Army major) takes the list of currency requests into his office every day and comes out with approvals and denials. There is no formal process and she estimated that 40-50 people (many formerly with the Central Bank) have left

CADIVI in the past few months. She added that over the summer CADIVI was falling significantly short of its target (USD 40 million daily instead of USD 80 million). A couple of times, towards the end of the month when they tabulated results, they realized the shortfall and authorized everything they could find to meet the daily average target. (Comment: De Robles sees her ouster as a political act to ensure Chavista control of an important financial tool. While she demurred on specifically charging her successor with corruption, she did note that during previous currency controls in the 1990s the average "fee" was USD 7 cents for every dollar authorized. End comment.)

¶4. (SBU) CADIVI has also been under pressure from National Assembly (AN) and Finance Commission President Rodrigo Cabezas, who has criticized CADIVI for not doing more to drain excess liquidity from the economy (read: approve more foreign exchange transactions). (Comment: The recent up-tick in approvals is most likely a result of seasonal changes in demand as people return to work and resume their normal consumption habits and a response to public criticism. End comment.)

¶5. (U) The United States is the single largest exporter to Venezuela, with 30.6 percent of the market for Venezuelan imports (followed by Colombia (10 percent) and Brazil (9.7 percent)). Venezuela imports everything from luxury goods to basic staples. According to data provided by CADIVI to the National Assembly, as of August 2006 CADIVI had approved USD 1.4 billion for automobiles and automotive parts and USD 498 million for cellular phones. Domestic car sales have increased almost 75 percent since August of 2005 and the entire national production of cars (300,000 vehicles) for 2006 has already been sold. Waiting lists range anywhere from 2 to 8 months for a new car. Venezuela should have 75 percent cell phone penetration by the end of the year and it is common to see people on the streets in Caracas talking on the latest Motorola Razr (which costs about USD 465, or 86 percent of the average monthly salary in Venezuela).

¶6. (SBU) CADIVI has also authorized transactions of USD 71 million for whiskey so far this year (which is only slightly less than the USD 82 million Venezuela spent on wheat, though Venezuela produces no wheat domestically). This follows Chavez's admonishment against whiskey in June when he said that his government should "not give money to the oligarchy so that it can import whiskey." (Note: While some Embassy contacts have noted that British spirits distributors have had trouble lately in obtaining import licenses, Pernod Ricard's managing director told Econoffs two weeks ago that business had never been better. Caracas's avenues are practically littered with whiskey advertisements and at a recent Pernod Ricard reception they unveiled a new whiskey brand for Venezuela, which they hope will increase Venezuela's standing from the 7th largest consumer of whiskey worldwide. End Note.)

¶7. (U) The parallel exchange rate for the Venezuelan Bolivar reached 2880 bolivars/ 1 USD during the last week of September and the overvalued official exchange rate (2150 bolivars / 1 USD) continues to fuel the import boom. While this hurts Venezuelan producers and incentivizes Venezuelan businessmen to use their money to import goods instead of make capital investments, it helps keep inflation lower by keeping prices artificially low for imported goods.

¶8. (SBU) COMMENT: The insatiable demand for imports in the Venezuelan economy is a result of BRV economic policies and cultural preferences for imported goods. Chavez is overseeing the gradual de-industralization of the Venezuelan economy and the few sectors where Venezuela could be competitive are being replaced by artificially cheap imports. The BRV is aware of its dependence on imports and has resorted to increasing their presence in the Venezuelan economy in order to keep the population satisfied. For example, recent sugar shortages were "solved" by importing 60,000 tons of sugar from Brazil. This stands in contrast to

statements by Chavez and senior BRV officials that Venezuela is on the path to "independence." The growth in imports seems unlikely to diminish as the consumption boom continues. Venezuelans are discounting the future by buying now rather than saving for later due to easy credit, negative interest rates (inflation outstrips the interest rates banks pay on deposits), and political and economic uncertainty. The trend shows no signs of abating; especially when there are premium distilled spirits on hand. END COMMENT.
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